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The Soviet Economy

For the second year in a row, the Soviet economy showed a modest improvement in 1984 from the exceptionally low rates of growth experienced in the late 1970s and early 1980s.

- Overall output grew around 2 1/2 percent last year, slightly below the gain posted for 1983.
- This compares favorably with the record in 1979-1981 when growth fell below 2 percent, but remains well below levels achieved in the late 1960s and early 1970s.
- Last year's increase resulted mainly from growth in materials output; overall fuel production was up only slightly and oil output actually declined somewhat.
- Agricultural production also declined slightly from the 1983 level, after two years of over 6% per annum growth.

The improvement in economic performance over the last two years probably does not reflect any success in dealing with fundamental problems such as slow labor growth and rising resource costs. Rather:

- Better weather than in the slower growth years reduced transportation problems and allowed more electricity to be used to support production.
- A doubling in the rate of plant and equipment investment to roughly 4 percent a year coupled with slower growth for military procurement also contributed to the increases in output.
- The discipline and anticorruption campaign initiated under Andropov--spot checks on unauthorized leave, tighter discipline, and a tougher line with managers--also paid dividends.

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Unless followed with new measures, however, these output gains probably cannot be sustained.

We believe economic growth will average only 1.5 - 2.5 percent annually during the second half of the 1980s. For example:

- Additions to the working-age population will be lower in the next several years than at any time since the early 1960s.
- According to Soviet officials, the investment for drilling needed just to maintain oil production at its current rate during the next Five-Year Plan will be at least double the investment expected under the current plan.

Economic growth will also be held back by the USSR's highly centralized system of planning and management. Indeed, the greatest potential for economic gain over the longer term continues to lie in economic reform. However, we see little prospect for bold systemic change.

The sluggish economic growth we forecast leaves the Soviet leadership with some tough choices. (See graphic)

- If, for example, the Soviets try to increase defense spending to the levels experienced in the 1960s and early 1970s while maintaining investment growth, living standards would stagnate or decline depending on the ability of the economy to make gains in labor productivity and use capital.
- The present leadership seems to be aiming at policies which allow for defense growth at about the level of GNP increases but with living standards rising at a rate slower than economic growth as a whole.